

Southwest Community Services Agency

**For the Year Ended
June 30, 2003**

Arthur A. Hayes, Jr., CPA, JD, CFE
Director

Edward Burr, CPA
Assistant Director

Kandi B. Thomas, CPA, CFE
Audit Manager

Sam Alzoubi
In-Charge Auditor

Jeff McClanahan
Staff Auditor

Gerry C. Boaz, CPA
Technical Analyst

Amy Brack
Editor

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 401-7897

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www.comptroller.state.tn.us.



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY**

State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

October 14, 2004

The Honorable Phil Bredesen, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and
Board of Directors
Southwest Community Services Agency
33 Old Hickory Blvd., East
Jackson, Tennessee 38305

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Southwest Community Services Agency for the year ended June 30, 2003. You will note from the independent auditor's report that unqualified opinions were given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance disclosed certain deficiencies, which are detailed in the Results of the Audit section of this report. The agency's management has responded to the audit findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/th
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State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Southwest Community Services Agency
For the Year Ended June 30, 2003

AUDIT OBJECTIVES

The objectives of the audit were to consider the agency's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, and contracts; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

INTERNAL CONTROL FINDING

The Agency Incurred Costs Prior to Contracts Being Approved

Contrary to the agency's own board-approved policies, management permitted the agency to incur expenditures prior to contracts being approved.

COMPLIANCE FINDING

The Agency Inappropriately Granted Administrative Leave With Pay

The Executive Director inappropriately placed an employee on administrative leave with pay when the employee had sick and annual leave to use for an illness.

OPINIONS ON THE FINANCIAL STATEMENTS

The opinions on the financial statements are unqualified.

Audit Report
Southwest Community Services Agency
For the Year Ended June 30, 2003

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Southwest Community Services Agency For the Year Ended June 30, 2003

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Southwest Community Services Agency. The audit was conducted pursuant to Section 37-5-313, *Tennessee Code Annotated*, which authorizes the Comptroller of the Treasury to “make an annual audit of the program established by this part as part of the comptroller’s annual audit pursuant to Section 9-3-211.”

BACKGROUND

The Community Services Agency Act of 1996 created the community services agencies. The purpose of these agencies is to coordinate funds and programs designated for care of children and other citizens in the state.

The Southwest Community Services Agency serves the following counties: Chester, Decatur, Fayette, Hardeman, Hardin, Haywood, Henderson, Lauderdale, Madison, McNairy, and Tipton. The agency’s administrative offices are in Jackson, Tennessee.

The governing body of the Southwest Community Services Agency is the board of directors. As of June 30, 2003, the board was composed of 12 members. (See Appendix.) An executive committee, consisting of three board members, has the authority to act on behalf of the board of directors in the management of the agency’s property, affairs, and funds in extraordinary circumstances when the governing board cannot convene.

The agency’s programs are carried out by staff under the supervision of the executive director, who is appointed by the Commissioner of the Department of Children’s Services, subject to the approval of the board.

AUDIT SCOPE

The audit was limited to the period July 1, 2002, through June 30, 2003, and was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the

Comptroller General of the United States. Financial statements are presented for the year ended June 30, 2003, and for comparative purposes, the year ended June 30, 2002. The Southwest Community Services Agency has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the agency's internal control over financial reporting to determine auditing procedures for the purpose of expressing opinions on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, and contracts;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

OBSERVATIONS AND COMMENTS

AUDIT COMMITTEE RECOMMENDED

As a result of the fraud-related business failures of companies such as Enron and WorldCom in recent years, Congress and the accounting profession have taken aggressive measures to try to detect and prevent future failures related to fraud. These measures have included the signing of the *Sarbanes-Oxley Act of 2002* by the President of the United States and the issuance of *Statement on Auditing Standards Number 99* (SAS 99) by the American Institute of Certified Public Accountants. This new fraud auditing standard has not only changed the way auditors perform audits but has also provided guidance to management and boards of directors on creating antifraud programs and controls. This guidance has included the need for an independent audit committee.

As a result of these developments, we are recommending that agencies with boards establish audit committees. The specific activities of any audit committee will depend on, among other things, the mission, nature, structure, and size of each agency. In establishing the audit committee and creating its charter, each board should examine its agency's particular circumstances. Anti-fraud literature notes that there are two categories of fraud: fraudulent financial reporting and misappropriation of assets. The audit committee should consider the risks of fraud in its agency in general as well as the history of its particular agency with regard to prior audit findings, previously disclosed weaknesses in internal control, and compliance issues. The audit committee should consider both the risk of fraudulent financial reporting and the risk of fraud due to misappropriation or abuse of agency assets. Also, the board and the audit committee should keep in mind that agencies receiving public funding should have a lower threshold of materiality than private sector entities with regard to fraud risks.

Boards should exercise professional judgment in establishing the duties, responsibilities, and authority of their audit committee. The factors noted below are not intended to be an exhaustive listing of those matters to be considered. The committee should not limit its scope to reacting to a preconceived set of issues and actions but rather should be proactive in its oversight of the agency as it concentrates on the internal control and audit-related activities of the entity. In fact, this individualized approach is one of the main benefits derived from an audit committee.

At a minimum, audit committees should:

1. Develop a written charter that addresses the audit committee's purpose and mission, which should be, at a minimum, to assist the board in its oversight of the agency.
2. Formally reiterate, on a regular basis, to the board, agency management, and staff their responsibilities for preventing, detecting, and reporting fraud, waste, and abuse.
3. Serve as a facilitator of any audits or investigations of the agency, including advising auditors and investigators of any information they may receive or otherwise note regarding risks of fraud or weaknesses in the agency's internal controls; reviewing with the auditors any findings or other matters noted by the auditors during audit engagements; working with the agency management and staff to ensure implementation of audit recommendations; and assisting in the resolution of any problems the auditors may have with cooperation from agency management or staff.
4. Develop a formal process for assessing the risk of fraud at the agency, including documentation of the results of the assessments and assuring that internal controls are in place to adequately mitigate those risks.
5. Develop and communicate to staff of the agency their responsibilities to report allegations of fraud, waste, or abuse at the agency to the committee and the Comptroller's Office as well as a process for immediately reporting such information.
6. Immediately inform the Comptroller of the Treasury's Office when fraud is detected.
7. Develop and communicate to the board, agency management, and staff a written code of conduct reminding those individuals of the public nature of the agency and the need for all to

maintain the highest level of integrity with regard to the financial operations and any related financial reporting responsibilities of the agency; to avoid preparing or issuing fraudulent or misleading financial reports or other information; to protect agency assets from fraud, waste, and abuse; to comply with all relevant laws, rules, policies, and procedures; and to avoid engaging in activities which would otherwise bring dishonor to the agency.

The charter of the audit committee should include, at a minimum, the following provisions:

1. The audit committee should be a standing committee of the board.
2. The audit committee should be composed of at least three members. The chair of the audit committee should preferably have some accounting or financial management background. Each member of the audit committee should have an adequate background and education to allow a reasonable understanding of the information presented in the financial reports of the agency and the comments of auditors with regard to internal control and compliance findings and other issues.
3. The members of the audit committee must be independent from any appearances of other interests that are in conflict with their duties as members of the audit committee.
4. The board, the audit committee, and the management and staff of the agency should recognize expressly that they are responsible for taking all reasonable steps to prevent, detect, and report fraud, waste, and abuse.
5. The audit committee should meet regularly throughout the year. The audit committee can meet by telephone, if that is permissible for other committees. However, the audit committee is strongly urged to meet at least once a year in person. Members of the audit committee may be members of other standing committees of the board, but the audit committee meetings should be separate from the meetings of other committees of the board.
6. The audit committee should record minutes of its meetings.

The Division of State Audit will be available to discuss with the board any questions it might have about the creation of its particular audit committee. There are also other audit committees which have already been established at other state agencies that the board may wish to contact for advice and further information.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the Southwest Community Services Agency's financial statements for the year ended June 30, 2003, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing opinions on the financial statements, as required by auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. A reportable condition, along with the recommendation and management's response, is detailed in the findings and recommendations. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

The results of our audit tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. An immaterial instance of noncompliance, along with the recommendation and management's response, is included in the findings and recommendations.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered unqualified opinions on the Southwest Community Services Agency's financial statements.



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 401-7897
FAX (615) 532-2765**

**Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance With
*Government Auditing Standards***

March 4, 2004

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the financial statements of the Southwest Community Services Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 2003, and have issued our report thereon dated March 4, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Southwest Community Services Agency's financial statements are free of material misstatement, we performed tests of the agency's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We did, however, note a certain immaterial instance of noncompliance that we have included in the Findings and Recommendations section of this report. We also noted certain other less significant instances of noncompliance that we have reported to the agency's management in a separate letter.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Southwest Community Services Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements.

The following reportable condition was noted:

- The agency incurred costs prior to contracts being approved.

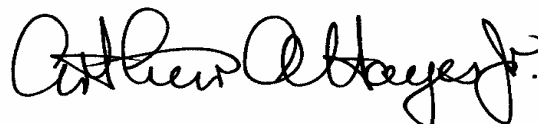
This condition is described in the Findings and Recommendations section of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

We also noted other matters involving the internal control over financial reporting that we have reported to the agency's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee, the board of directors, and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

A handwritten signature in black ink, appearing to read "Arthur A. Hayes, Jr.", with a stylized, cursive script.

Arthur A. Hayes, Jr., CPA,
Director

AAH/th

FINDINGS AND RECOMMENDATIONS

1. The agency incurred costs prior to contracts being approved

Finding

Contrary to the agency's board-approved policies, management permitted the agency to incur expenditures prior to contracts being approved. Contract testwork revealed that for 11 of 12 contracts tested (92%), the agency incurred liabilities prior to the contract approval. These contracts were approved from 46 to 361 days after the effective date of the contract with an average of 151 days after the effective date. Furthermore, for three of these contracts, the agency not only incurred obligations but also made payments to the contractors prior to the approval of the contracts. These payments totaled \$10,599.

The agency's Internal Operation Policy 3.16 states,

Contracts falling within the scope of these Rules and Regulations [*Department of Finance and Administration Rules and Regulations*, Chapter 0620-3-3] must be reviewed and approved by the commissioner, or his/her designee, of the Department of Children's Services, and be identified in the Agency's approved plan of operation for the applicable fiscal year in which the contract is operative.

If contracts are not approved before the contract period begins and before services are rendered, the agency could be obligated to pay for unauthorized services.

Recommendation

The Executive Director and the Director of Fiscal Services should ensure that all contracts and related amendments are approved timely by the responsible parties. Services should not be authorized or provided, or liabilities incurred, until all approvals have been obtained.

Management's Comment

We concur. The Agency has operated over the past several years with the understanding that a vendor contract could not be fully executed until the corresponding revenue contract was in place. The Agency utilized a purchase order system to approve and manage liabilities during the time expenses were incurred prior to vendor contract execution. Under new recommendations from the Division of State Audit and effective July 1, 2005, we will begin to utilize our Plan of Operation approval as our ability to fully execute a contract. This will enable us to become compliant with the Department of Finance and Administration Rules and Regulations and the Agency's Internal Operation Policies.

2. The agency inappropriately granted administrative leave with pay

Finding

The Executive Director inappropriately placed an employee on administrative leave with pay when the employee became too ill to work. The leave was for the period July 23, 2002, through August 30, 2002. At the time the employee was placed on administrative leave, the employee had sick and annual leave balances of 15 hours and 141.6 hours, respectively.

According to the Executive Director, the employee was sick prior to his retirement, and at the discretion of the Executive Director, the employee was approved for paid administrative leave. The agency paid the employee \$2,914.36 for administrative leave hours (99.5 hours at \$29.29 per hour) for the period July 23 through August 11, 2002. In addition, the agency allowed the employee to accrue 7.5 hours of sick leave and 13.2 hours of annual leave while on paid administrative leave. On December 27, 2002, the agency paid the employee \$8,488.25 for 154.8 hours of annual leave; 22.5 hours of sick leave; and 112.5 hours of unpaid administrative leave for the period August 12, 2002, through August 30, 2002. Of the \$11,402.61 paid to the employee while on leave, we believe only \$4,586.81 (the balance of sick and annual leave earned prior to being placed on administrative leave) should have been paid to the employee. Therefore, the remaining \$6,815.80 paid to the employee appears to be an unallowable expense.

In addition, this employee was stationed at the West Tennessee Penitentiary, and the administrative leave hours paid, as well as paid leave hours, were charged to the Tennessee Department of Correction grant without documentation of the grantor's approval. According to the Executive Director, he worked with the Department of Correction to decide how to handle the employee's situation. However, without documentation we could not determine that the department approved these costs. Furthermore, only the validly earned leave, and not the administrative leave expenses, appears to be a reasonable and necessary charge to the Department of Correction grant.

Recommendation

The Executive Director should not grant administrative leave with pay for illness when the employee has sick and annual leave balances. The \$6,815.80 charged to the Department of Correction's grant should be returned to the department.

Management's Comment

We do not concur. While the Agency did place an employee on discretionary leave, it did so within policy. Policy 4.23 – Special Leave in the Agency's Personnel Policies and Procedures manual gives the Executive Director authority to grant such discretionary leave in a paid or unpaid status for the

welfare of the employee or the proper operation of the agency. These policies were approved by the governing Board of Directors and the Department of Children's Services.

Management did not act alone in placing the employee on leave. The employee was a physician's assistant located at the West Tennessee State Penitentiary. The employee had nearly 20 years of combined service with the State and the Agency. Given the employee's terminal illness, and the fact that the employee provided direct healthcare to an inmate population, the management of this Agency and the Warden of West Tennessee State Penitentiary mutually agreed to place the employee on discretionary leave until a date at which he would retire.

Management concedes that the conversations between the Executive Director and the Warden were done verbally, with no formal record. However, the contract between the Agency and TDOC does not require that the Agency confer with TDOC before placing an employee on discretionary leave.

The decision made by both parties was made as a protection to the agency's proper operation of the medical clinics at West Tennessee State Penitentiary and the welfare of a terminally ill employee.

Rebuttal

The agency provides certain employment benefits to its full-time employees. These benefits include the accrual of annual and sick leave, either of which may be used in the event of employee illness. To grant employees, due to illness, additional paid leave over and above these accrued leave balances, despite the admirable charitable intent, is providing excessive employee compensation. The decision to place an employee on administrative leave with pay in such a situation, especially when the employee had sick and annual leave balances available, appears to be an unreasonable and unnecessary cost to the agency.



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 401-7897
FAX (615) 532-2765

Independent Auditor's Report

March 4, 2004

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying financial statements of the governmental activities and the general fund of the Southwest Community Services Agency, a component unit of the State of Tennessee, as of and for the years ended June 30, 2003, and 2002, which collectively comprise the agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the agency's management. Our responsibility is to express opinions on these financial statements, based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the Southwest Community Services Agency as of June 30, 2003, and 2002, and the respective changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

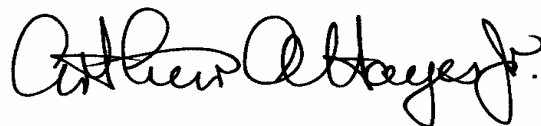
The Honorable John G. Morgan
March 4, 2004
Page Two

The management's discussion and analysis and the Schedule of Pension Funding Progress for Southwest Community Services Agency are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the agency's basic financial statements. The accompanying financial information on page 36 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2004, on our consideration of Southwest Community Services Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Arthur A. Hayes, Jr.", with a stylized flourish at the end.

Arthur A. Hayes, Jr., CPA,
Director

AAH/th

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of Southwest Community Services Agency provides this *Management's Discussion and Analysis* of the Southwest Community Services Agency's Annual Financial Report for readers of the financial statements. This narrative overview and analysis of the financial activities of the Southwest Community Services Agency is for the fiscal years ended June 30, 2003, and June 30, 2002. Southwest Community Services Agency implemented GASB 34 for the year ended June 30, 2002. We did not restate the financial statements for June 30, 2001, for comparative purposes. Complete comparative information will be presented in future years.

FINANCIAL HIGHLIGHTS - PRIMARY GOVERNMENT

Government-Wide Highlights:

Net Assets - The assets of the agency exceeded its liabilities by \$345,153.99 (presented as "net assets") at June 30, 2003, and by \$411,156.52 (presented as "net assets") at June 30, 2002. Of this amount, \$342,420.55 was reported as "unrestricted net assets" for June 30, 2003, and \$404,669.77 for June 30, 2002. Unrestricted net assets represent the amount available to be used to meet the agency's ongoing obligations.

Changes in Net Assets - The agency's total net assets decreased by \$66,002.53 in fiscal year 2003 and by \$132,712.28 in fiscal year 2002.

Fund Highlights:

Governmental Funds - Fund Balances - The agency's governmental fund, the general fund, reported an ending fund balance of \$518,827.02 for the year ended June 30, 2003, and \$587,215.76 for the year ended June 30, 2002—a decrease of \$68,388.74 and \$115,822.65 in comparison to the prior years.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Southwest Community Services Agency's basic financial statements. The basic financial statements include three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains additional required supplementary information (the Schedule of Pension Funding Progress) and supplementary information which is not required (the Budgetary Comparison Schedule), in addition to the basic financial statements. These components are described below.

Basic Financial Statements

The basic financial statements include two kinds of financial statements that present different views of the agency—the *Government-Wide Financial Statements* and the *Fund Financial*

Statements. These financial statements also include the *Notes to the Financial Statements* that explain some of the information in the financial statements and provide more detail.

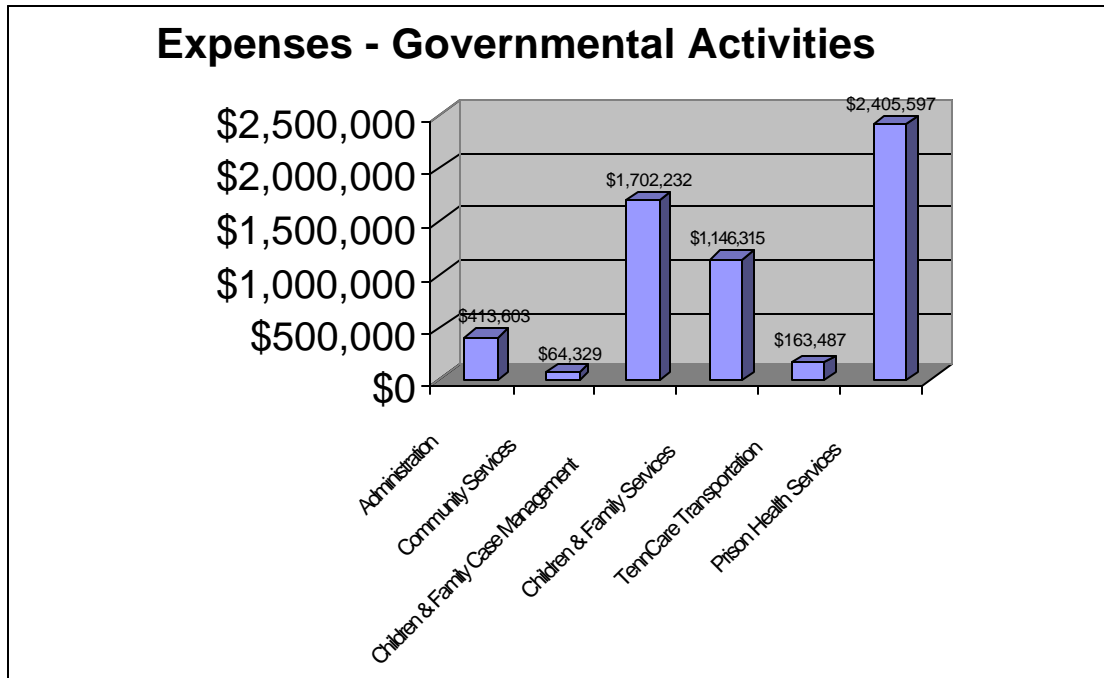
Government-Wide Financial Statements

The ***Government-Wide Financial Statements*** provide a broad view of the agency's operations using accounting methods similar to a private-sector business. The statements provide both short-term and long-term information about the agency's financial position, which assists in assessing the agency's economic condition at the end of the fiscal year. These are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. They take into account all revenues and expenses connected with the fiscal year even if cash involved has not been received or paid. The government-wide financial statements include two statements:

The ***Statement of Net Assets*** presents all of the government's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in the agency's net assets may serve as a useful indicator of whether the financial position of the agency is improving or deteriorating.

The ***Statement of Activities*** presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the agency's program. Both of the above financial statements have only one section or division called governmental activities.

Governmental Activities - All of the agency's services are included here. Most of the agency's basic services are providing help to children and families, correctional health care, and coordination of transportation for TennCare enrollees. These activities are supported primarily by governmental revenues (state grants) and revenue from TennCare Managed Care Organizations and Behavioral Health Organizations.



The government-wide financial statements can be found immediately following this discussion and analysis.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The fund financial statements focus on individual parts of the agency government, reporting the agency's operations in more detail than the government-wide statements. The agency has only one category of funds: Governmental Funds.

Governmental Funds Financial Statements - The basic services provided by the agency are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the agency's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the agency. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and

changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities. These reconciliations are presented on the same pages as the governmental fund financial statements. The agency has one governmental fund, the General Fund. The basic governmental funds financial statements can be found immediately following the government-wide statements.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the fund financial statements.

Required Supplementary Information

The basic financial statements are followed by required supplementary information, which consists of a Schedule of Pension Funding Progress.

Supplementary Information

The Budgetary Comparison Schedule is presented as supplementary information. It follows the required supplementary information.

FINANCIAL ANALYSIS

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of an agency's financial position. The agency's combined net assets (government activities) totaled \$345,153.99 at June 30, 2003, and \$411,156.52 at June 30, 2002. A decrease of \$66,002.53 from fiscal year ended June 30, 2002, is primarily comprised of a loss of revenue earned from the TennCare Transportation Program. A decrease of \$132,712.28 from the fiscal year ended June 30, 2001, comprised a loss of revenue from the TennCare Transportation Program and a loss of interest earned on the agency's savings account. The agency experienced a decline in the interest rate paid on the savings account during the year and a sluggish payment system from the state. The TennCare Transportation Program revenues and earned interest revenues are used to fund the agency's Community Services Program.

**Southwest Community Services Agency
Net Assets**

	June 30, 2003	June 30, 2002
Current and other assets	\$ 1,362,114.07	\$ 1,197,414.71
Capital assets	<u>2,733.44</u>	<u>6,486.75</u>
Total Assets	<u>1,364,847.51</u>	<u>1,203,901.46</u>
Current and other liabilities	843,287.05	610,198.95
Long-term liabilities	<u>176,406.47</u>	<u>182,545.99</u>
Total Liabilities	<u>1,019,693.52</u>	<u>792,744.94</u>
Net Assets:		
Invested in capital assets, net of related debt	2,733.44	6,486.75
Unrestricted net assets	<u>342,420.55</u>	<u>404,669.77</u>
Total Net Assets	<u>\$ 345,153.99</u>	<u>\$ 411,156.52</u>

Changes in Net Assets

The agency's net assets decreased by \$66,002.53 from fiscal year ended June 30, 2002. Approximately 96 percent of the agency's total revenue came from State of Tennessee, while 4 percent resulted from charges for various goods and services provided. A decrease resulted from a decline in revenue earned during the year. The agency experienced a decrease in earned TennCare Transportation Program revenue. The agency's net assets decreased by \$132,712.28 from fiscal year ended June 30, 2001. Approximately 96 percent of the agency's total revenue came from the State of Tennessee, while 4 percent resulted from charges for various goods and services provided. A decrease resulted from a decline in revenue earned during the year. The agency experienced a decrease in earned revenue from the TennCare Transportation Program and earned interest from the agency's savings account. Revenues earned from both of these funds are used to support the agency's Community Services Program.

**Southwest Community Services Agency
Changes in Net Assets**

	<u>2003</u>	<u>2002</u>
Revenues:		
Program revenues:		
Charge for services	\$ 177,286.44	\$ 217,476.21
Operating grants and contributions	5,648,776.50	5,419,888.23
General revenues:		
Payment from State	-	376,743.42
Unrestricted investment earnings	<u>7,251.11</u>	<u>13,780.97</u>
Total Revenues	<u>5,833,314.05</u>	<u>6,027,888.83</u>

Expenses:

Administration	413,603.21	417,713.91
Child and Family Case Management	1,702,232.49	1,916,878.27
Child and Family Services	1,146,315.16	1,298,854.28
Prison Health Services	2,405,596.76	2,214,947.85
TennCare Transportation	163,486.56	174,237.14
Community Services	64,329.09	134,216.35
Depreciation – unallocated	<u>3,753.31</u>	<u>3,753.31</u>
Total Expenses	<u>5,899,316.58</u>	<u>6,160,601.11</u>
Decrease in net assets	(66,002.53)	(132,712.28)
Net assets, beginning	<u>411,156.52</u>	<u>543,868.80</u>
Net assets, ending	<u>\$ 345,153.99</u>	<u>\$ 411,156.52</u>

FINANCIAL ANALYSIS OF THE AGENCY'S INDIVIDUAL FUNDS

As noted earlier, the agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the agency's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the agency's financing requirements. In particular, unreserved fund balance may serve as a useful measure of an agency's net resources available for spending at the end of the fiscal year. The agency's governmental funds reported combined ending fund balances of \$18,827.02 for the year ending June 30, 2003, and \$587,215.76 for the year ending June 30, 2002. The decrease in fund balance of \$68,388.74 in fiscal year ended June 30, 2003, is a result of the loss of revenue earned from TennCare Transportation MCOs/BHOs during the year. TennCare experienced a transition in enrollees and insurance providers. The agency earns revenue based upon the contracts with insurance providers and the number of TennCare enrollees under that provider. The decline in revenue money earned began in fiscal year 2002 and continued into fiscal year 2003. The decrease of \$115,822.65 in fund balance for the fiscal year ended June 30, 2002, is a result of the loss of revenue earned from TennCare Transportation MCOs/BHOs and the significant decline in the interest earned on the agency's savings account. TennCare experienced some shifts in insurance providers for the agency's region and a decrease in the number of contracted providers. The agency earns revenue based upon the contracts with insurance providers and the number of TennCare enrollees under that provider. An overall decline in the interest rate paid on the savings account during the year and a sluggish payment from the state resulted in a significant decrease in the interest earned. Both the TennCare Transportation Program revenues and earned interest revenues are used to fund the agency's Community Services Program.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The agency's investment in capital assets for its governmental activities as of June 30, 2003, and 2002, was \$31,284.04, which, net of accumulated depreciation of \$28,550.60 and \$24,797.29, left net book values of \$2,733.44 and \$6,486.75 at the end of each respective fiscal year. This investment in capital assets does not constitute a material balance on the balance sheet. For additional capital asset activity detail, see the notes to the financial statements (Note 3). Obligations to make future payment for compensated absences are described in detail in the notes to the financial statements (Note 4).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Management does not foresee changes in programs in the near future. Our major source of funding, the Department of Children's Services, has stabilized after going through a restructuring phase. Current funding levels with the Department of Children's Services and the Department of Correction seem to be stable. It also appears that the TennCare Transportation Program revenues will be consistent with the fiscal year ended June 30, 2003.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our grantors, customers, and the citizens of the State of Tennessee with a general overview of the agency's finances and its use of the funds it receives. If you have any questions about this report or need additional information, contact the agency's Director of Fiscal Services, 33 Old Hickory Blvd. E, Jackson, TN 38305.

Southwest Community Services Agency
Statements of Net Assets
June 30, 2003, and June 30, 2002

	Governmental Activities	
	June 30, 2003	June 30, 2002
Assets		
Cash (Note 2)	\$ 647,658.93	\$ 399,099.29
Accounts receivable	1,557.36	1,389.46
Due from the State of Tennessee	706,365.94	790,755.59
Prepaid Items	6,531.84	6,170.37
Capital assets (Note 3):		
Capitalized equipment	31,284.04	31,284.04
Less accumulated depreciation	(28,550.60)	(24,797.29)
Total assets	<u>1,364,847.51</u>	<u>1,203,901.46</u>
Liabilities		
Accrued payroll, payroll taxes, and benefits	141,651.05	138,533.87
Accounts payable	391,202.09	285,197.20
Due to the State of Tennessee	310,433.91	186,467.88
Long-term liabilities (Note 4):		
Portion due or payable within one year:		
Compensated absences	91,228.82	99,175.28
Portion due or payable after one year:		
Compensated absences	85,177.65	83,370.71
Total liabilities	<u>1,019,693.52</u>	<u>792,744.94</u>
Net Assets		
Invested in capital assets	2,733.44	6,486.75
Unrestricted	342,420.55	404,669.77
Total net assets	<u>\$ 345,153.99</u>	<u>\$ 411,156.52</u>

The notes to the financial statements are an integral part of this statement.

Southwest Community Services Agency
Statements of Activities
For the Year Ended June 30, 2003, and June 30, 2002

Programs	For the year ended June 30, 2003				For the year ended June 30, 2002			
	Program Revenues				Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Governmental activities:								
Administration	\$ 413,603.21	\$ -	\$ 413,215.20	\$ (388.01)	\$ 417,713.91	\$ -	\$ -	\$ (417,713.91)
Child and Family Case Management (Note 11)	1,702,232.49	-	1,679,032.00	(23,200.49)	1,916,878.27	-	1,914,374.09	(2,504.18)
Child and Family Services (Note 11)	1,146,315.16	-	1,146,315.16	-	1,298,854.28	-	1,298,854.28	-
Prison Health Services	2,405,596.76	-	2,410,214.14	4,617.38	2,214,947.85	-	2,206,659.86	(8,287.99)
TennCare Transportation	163,486.56	177,286.44	-	13,799.88	174,237.14	217,476.21	-	43,239.07
Community Services	64,329.09	-	-	(64,329.09)	134,216.35	-	-	(134,216.35)
Depreciation - unallocated (Note 3)	3,753.31	-	-	(3,753.31)	3,753.31	-	-	(3,753.31)
Total governmental activities	<u>\$ 5,899,316.58</u>	<u>\$ 177,286.44</u>	<u>\$ 5,648,776.50</u>	<u>(73,253.64)</u>	<u>\$ 6,160,601.11</u>	<u>\$ 217,476.21</u>	<u>\$ 5,419,888.23</u>	<u>(523,236.67)</u>
General revenues:					General revenues:			
Payment from the State of Tennessee				-	Payment from the State of Tennessee			376,743.42
Unrestricted investment earnings				7,251.11	Unrestricted investment earnings			13,780.97
Change in net assets				(66,002.53)	Change in net assets			(132,712.28)
Net assets - beginning				411,156.52	Net assets - beginning			543,868.80
Net assets - ending				<u>\$ 345,153.99</u>	Net assets - ending			<u>\$ 411,156.52</u>

The notes to the financial statements are an integral part of this statement.

Southwest Community Services Agency
Balance Sheets
General Fund
June 30, 2003, and June 30, 2002

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Assets		
Cash (Note 2)	\$ 647,658.93	\$ 399,099.29
Accounts receivable	1,557.36	1,389.46
Due from the State of Tennessee	706,365.94	790,755.59
Prepaid Items	6,531.84	6,170.37
Total assets	<u>\$ 1,362,114.07</u>	<u>\$ 1,197,414.71</u>
Liabilities and Fund Balances		
Liabilities:		
Accrued payroll, payroll taxes, and benefits	\$ 141,651.05	\$ 138,533.87
Accounts payable	391,202.09	285,197.20
Due to the State of Tennessee	310,433.91	186,467.88
Total liabilities	<u>843,287.05</u>	<u>610,198.95</u>
Fund balances:		
Reserved for prepaid items	6,531.84	6,170.37
Unreserved	512,295.18	581,045.39
Total fund balances	<u>518,827.02</u>	<u>587,215.76</u>
Total liabilities and fund balances	<u>\$ 1,362,114.07</u>	<u>\$ 1,197,414.71</u>
 Reconciliation of the general fund balance sheet to the statement of net assets:		
 Total fund balance	 \$ 518,827.02	 \$ 587,215.76
Amounts reported in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the general fund.	2,733.44	6,486.75
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the general fund. Long-term liabilities at year-end consist of:		
Compensated absences	<u>(176,406.47)</u>	<u>(182,545.99)</u>
Total net assets	<u>\$ 345,153.99</u>	<u>\$ 411,156.52</u>

The notes to the financial statements are an integral part of this statement.

Southwest Community Services Agency
 Statements of Revenues, Expenditures, and Changes in Fund Balance
 General Fund
 For the Years Ended June 30, 2003, and June 30, 2002

	For the Year Ended June 30, 2003	For the Year Ended June 30, 2002
Revenues		
State grants and contracts	\$ 5,648,776.50	\$ 5,796,631.65
TennCare Transportation contracts	177,286.44	217,476.21
Interest	7,251.11	13,780.97
Total revenues	<u>5,833,314.05</u>	<u>6,027,888.83</u>
Expenditures		
Administration	413,215.20	414,349.95
Child and Family Case Management (Note 11)	1,705,134.81	1,914,374.09
Child and Family Services (Note 11)	1,146,315.16	1,298,854.28
Prison Health Services	2,410,214.14	2,206,659.86
TennCare Transportation	162,494.39	175,256.95
Community Services	64,329.09	134,216.35
Total expenditures	<u>5,901,702.79</u>	<u>6,143,711.48</u>
Deficiency of revenues under expenditures and net change in fund balance	(68,388.74)	(115,822.65)
Fund balance beginning	587,215.76	703,038.41
Fund balance ending	<u>\$ 518,827.02</u>	<u>\$ 587,215.76</u>
Reconciliation of the general fund statement of revenues, expenditures, and changes in fund balance to the statement of activities:		
Net change in fund balance	\$ (68,388.74)	\$ (115,822.65)
Amounts reported for activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. As there were no capital outlays during the period, this amount is depreciation expense.	(3,753.31)	(3,753.31)
The expense for compensated absences reported in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in governmental funds.	<u>6,139.52</u>	<u>(13,136.32)</u>
Changes in net assets of governmental activities	<u>\$ (66,002.53)</u>	<u>\$ (132,712.28)</u>

The notes to the financial statements are an integral part of this statement.

Southwest Community Services Agency
Notes to the Financial Statements
June 30, 2003, and June 30, 2002

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Title 37, Chapter 5, of *Tennessee Code Annotated*, established the CSA as “a political subdivision and instrumentality of the state.” The Southwest Community Services Agency is a component unit of the State of Tennessee and is discretely presented in the *Tennessee Comprehensive Annual Financial Report*. Although the CSA is a separate legal entity, the state is financially accountable for the CSA because the state appoints a majority of the CSA’s governing body and approves the CSA’s Plan of Operation (budget). The CSA’s reporting entity does not include any component units.

Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

The CSA’s basic financial statements consist of government-wide financial statements (the statement of net assets and the statement of activities) and fund financial statements (the balance sheet and the statement of revenues, expenditures, and changes in fund balance). The Southwest Community Services Agency has no proprietary or fiduciary funds, and its only governmental fund is the general fund.

The statement of net assets presents all of the CSA’s financial and capital resources including both short-term and long-term information. The statement of activities presents a comparison between the direct expenses and program revenues for each of the CSA’s programs. Direct expenses are those that are specifically associated with a program. Program revenues include (a) charges paid by the recipients for services provided by the program and (b) grants and contributions that are restricted to meeting the operational requirements of the program. Revenues that are not classified as program revenues are presented as general revenues.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Southwest Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2003, and June 30, 2002

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become susceptible to accrual, generally when they are measurable and become available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Revenues that the CSA earns by incurring obligations are recognized in the same period the obligations are recognized. All other revenue items are considered to be available if collected within 60 days after the end of the current period.

Expenditures are recorded when the related fund liability is incurred, except for compensated absences, which are recognized as expenditures only when payment is due. Capital assets acquisitions are reported as expenditures in governmental funds.

Under terms of grant agreements the CSA funds certain programs by a combination of specific cost-reimbursement grants and general revenues. It is the CSA's policy to first apply restricted resources to such programs and then unrestricted resources.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed in the government-wide statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Assets and Liabilities

Cash

Cash reported in both the government-wide and the fund financial statements consists of petty cash, demand deposits, and deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The liquidity of the LGIP is sufficient to cover any withdrawal request by a participant.

Capital Assets

Capital assets are defined by the CSA as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capitalized assets are reported in the government-wide financial statements. Capitalized assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. The CSA does not own any infrastructure. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

**Southwest Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2003, and June 30, 2002**

Capitalized assets are depreciated on a straight-line basis over the following estimated useful lives of the assets.

<u>Description</u>	<u>Estimated Life</u>
Computer Equipment	5 years
Computer Software	5 years
Copier Equipment	5 years

Compensated Absences

It is the CSA's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the CSA's policy is to pay this benefit only if the employee is sick or upon death. In the government-wide financial statements, the liability for all vacation pay is accrued when earned. In the fund financial statements, a liability for these amounts is reported only if they have matured, for example, because of employee resignations and retirements.

Budgetary Process

Legislation requires the CSA board to submit an annual plan of operation for review and approval to the Commissioner of Children's Services, Commissioner of Finance and Administration, and the Comptroller of the Treasury. As part of this plan, the CSA is to submit a financial plan for operating and capital expenditures. This financial plan is prepared on the modified accrual basis of accounting. The Plan of Operation may be amended during the year with the written approval of the Commissioners and the Comptroller.

The agency does not have an annual appropriated budget. The Plan of Operation serves as an annual financial plan for budgetary purposes.

NOTE 2. DEPOSITS

The Southwest Community Services Agency's bank accounts are in financial institutions that participate in the bank collateral pool administered by the Treasurer of the State of Tennessee. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment

Southwest Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2003, and June 30, 2002

agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

The Southwest Community Services Agency also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report* for the years ended June 30, 2003, and June 30, 2002. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

NOTE 3. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2003, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Equipment	\$ 31,284.04	\$ -	\$ -	\$ 31,284.04
Less				
accumulated				
depreciation	<u>(24,797.29)</u>	<u>(3,753.31)</u>	<u>-</u>	<u>28,550.60</u>
Total capital				
assets, net of				
depreciation	<u>\$ 6,486.75</u>	<u>\$ (3,753.31)</u>	<u>\$ -</u>	<u>\$ 2,733.44</u>

Capital assets activity for the year ended June 30, 2002, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Equipment	\$ 31,284.04	\$ -	\$ -	\$ 31,284.04
Less				
accumulated				
depreciation	<u>(21,043.98)</u>	<u>(3,753.31)</u>	<u>-</u>	<u>(24,797.29)</u>
Total capital				
assets, net of				
depreciation	<u>\$ 10,240.06</u>	<u>\$ (3,753.31)</u>	<u>\$ -</u>	<u>\$ 6,486.75</u>

Southwest Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2003, and June 30, 2002

All capital assets essentially serve all of the CSA's programs. Therefore, all depreciation expense is reported on the statement of activities as depreciation-unallocated.

NOTE 4. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2003, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Compensated Absences	\$ 182,545.99	\$ 20,837.75	\$ (26,977.27)	\$176,406.47
Total long-term liabilities	<u>\$ 182,545.99</u>	<u>\$ 20,837.75</u>	<u>\$ (26,977.27)</u>	<u>\$ 176,406.47</u>

Long-term liability activity for the year ended June 30, 2002, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Compensated Absences	\$ 169,409.67	\$ 212,830.74	\$ 199,694.42	\$ 182,545.99
Total long-term liabilities	<u>\$ 169,409.67</u>	<u>\$ 212,830.74</u>	<u>\$ 199,694.42</u>	<u>\$ 182,545.99</u>

NOTE 5. OPERATING LEASE

The agency leases equipment to carry out its activities and to administer its various grant programs. Total expenditures under operating leases for equipment were \$32,681.62 for the year ended June 30, 2003, and \$30,608.50 for the year ended June 30, 2002. These amounts included \$14,975.51 and \$20,099.98 for cancelable lease agreements for the years ended June 30, 2003, and June 30, 2002, respectively. Noncancelable lease payments were \$17,706.11 and \$10,508.52 for the years ended June 30, 2003, and June 30, 2002, respectively.

**Southwest Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2003, and June 30, 2002**

The following schedule by years of future minimum lease payments required under operating leases that have initial or remaining noncancelable lease terms exceeding one year as of June 30, 2003.

Year Ending June 30	
2004	\$ 12,756.56
2005	7,226.88
2006	7,226.88
2007	7,226.88
2008	<u>2,408.96</u>
Total minimum payments required	<u>\$ 36,846.16</u>

In addition, the State of Tennessee has entered into one cancelable lease agreement for space on behalf of the agency. The agency reimburses the state for this lease payment each quarter. Total reimbursements to the state for this operating lease were \$85,107.24 for the year ended June 30, 2003, and \$85,027.32 for the year ended June 30, 2002. The agency is not obligated to continue making the lease payments should it discontinue use of the space.

NOTE 6. DEFINED BENEFIT PENSION PLAN

Plan Description

All full-time employees are members of the Political Subdivision Pension Plan (PSPP), an agent, multiple-employer, defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). The TCRS administers a defined benefit pension plan that provides retirement, disability, and death benefits, as well as annual cost-of-living adjustments, to plan members and beneficiaries.

Benefit provisions are established in state statute found in Title 8, Chapters 34-37, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly. Amendments to the TCRS are not applicable to a political subdivision unless approved by the political subdivision's governing body.

Southwest Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2003, and June 30, 2002

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. The report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, 500 Deaderick Street, Nashville, Tennessee 37243-0230, or can be accessed at www.treasury.state.tn.us.

Funding Policy

As authorized by the agency's board of directors, the agency pays the total pension contribution for its employees. The agency is required to contribute an actuarially determined rate; for the year ended June 30, 2003, the rate was 8.56% of annual covered payroll, and for the year ended June 30, 2002, the rate was 8.18% of annual covered payroll. The contribution requirements of plan members are set by state statutes and approved by the political subdivision's governing body. Contribution requirements for agency are established and may be amended by the TCRS' Board of Trustees.

Annual Pension Cost

The agency's annual pension cost of \$266,487 for the year ended June 30, 2003, and \$263,184 for the year ended June 30, 2002, were equal to the agency's required and actual contributions.

The required contributions for the years ended June 30, 2003, and June 30, 2002, were determined as part of the July 1, 2001, and July 1, 1999, actuarial valuations using the frozen initial liability actuarial cost method, a projected-benefit cost method. Significant actuarial assumptions used in both valuations included a rate of return on investments of present and future assets of 7.5% a year compounded annually and a projected annual increase in post-retirement benefits of 3% of the retiree's most recent benefit. Projected salary increases used in the 2001 valuation were 4.75% a year compounded annually, down from 5.5% a year in the 1999 valuation (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries). The 2001 valuation projected a 3.5% annual increase in the social security wage base, down from 4.5% in the 1999 valuation. The actuarial value of the agency's assets was determined using techniques that smooth the effect of short-term volatility in the market value of both fixed income and equity securities over a five-year period. The agency's unfunded actuarial accrued liability is being amortized as a level-dollar amount of projected payroll on a closed basis. The remaining amortization period at July 1, 2001, was 20 years.

Southwest Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2003, and June 30, 2002

<u>Fiscal Year</u> <u>Ended</u>		<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of APC</u> <u>Contributed</u>		<u>Net Pension</u> <u>Obligation</u>
June 30, 2003	\$	266,487	100%	\$	-
June 30, 2002	\$	263,184	100%	\$	-
June 30, 2001	\$	264,993	100%	\$	-

NOTE 7. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee administers a group health insurance program that provides post-employment health insurance benefits to eligible agency retirees. This benefit is provided and administered by the State of Tennessee. The agency assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*. Note 2 includes information to obtain the report.

NOTE 8. CONTINGENCIES

Sick Leave—The agency records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The amount of unused sick leave was \$203,659.08 at June 30, 2003, and \$195,828.91 at June 30, 2002.

NOTE 9. DONATED FACILITIES

The Departments of Children's Services and Correction donate office space, utilities, telephone service, and copier and computer use to the Southwest Community Services Agency. The value of the donation is not recorded in the financial statements.

NOTE 10. RISK MANAGEMENT

The agency is exposed to various risks of loss related to general liability; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

Southwest Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2003, and June 30, 2002

Commercial Coverage

The agency carries commercial insurance for risks of loss of its personal property and surety bond coverage for risks of employee dishonesty. In the past three fiscal years, the agency has had no claims filed with the commercial insurer.

State of Tennessee's Claims Award Fund

The agency participates in the State of Tennessee's Claims Award Fund, an internal service fund in which the state has set aside assets for claims settlement. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the participating agencies based on a percentage of each agency's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of each fiscal year-end to determine the fund liability and premium allocation. As a participant in the Claims Award Fund, the agency is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, Section 9-8-101 et seq., *Tennessee Code Annotated*. Liability for negligence of the agency for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits under workers' compensation are set forth in Section 50-6-101 et seq., *Tennessee Code Annotated*.

Health Coverage

The agency has elected to provide health coverage for its employees through a health plan for eligible local governments and quasi-governmental agencies in Tennessee. The Local Government Group Insurance Fund provides access to affordable health insurance by pooling risk among the groups. The plan provides for greater stability in controlling premium increases and, through a structured managed-care program, helps contain health care costs of participating members.

The plan is administered by the State of Tennessee, using a separately established fund. Premiums of participating units are deposited to this fund and used to pay claims for health care costs of participants, as well as the state's administrative costs of the plan. The agency's obligation under the plan is limited to 80% of the total premiums. The employees are responsible for the remaining 20% of the total premiums. Employees have the option of obtaining insurance through Blue Cross Blue Shield of Tennessee, Blue Care, or

Southwest Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2003, and June 30, 2002

PruCare. Claims are administered by these companies, which are currently under contract to provide these and other services to the state. Insurance premiums are adjusted at the end of the year based on the claims experience of the pool. Individual pool participants are not assessed additional premiums based on individual claims experience. Employees and providers have 13 months to file medical claims under Blue Cross Blue Shield of Tennessee and Blue Care and 12 months to file claims under PruCare.

NOTE 11. RECLASSIFICATION FOR COMPARATIVE PURPOSES

Certain amounts presented for the preceding year have been reclassified for comparative purposes. Expenditures reported as Child and Family Services, Family Support Services, Flexible Funding, and Emergency Residential for the year ended June 30, 2002, were reclassified and reported as Child and Family Case Management and Child and Family Support Services for the year ended June 30, 2003.

NOTE 12. NEW ACCOUNTING PRONOUNCEMENTS

The Southwest Community Services Agency has implemented the provisions of Governmental Accounting Standards Board (GASB) Statements 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*; and 37, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments: Omnibus—an amendment of GASB Statements No. 21 and No. 34*. These statements establish new financial reporting requirements and restructure much of the information that governments have presented in the past. Comparability with reports issued in all prior years will be affected. The State of Tennessee implemented these statements, as required, for the year ending June 30, 2002. As a component unit of the State, the Southwest Community Services Agency has also implemented the statements for the year ending June 30, 2002.

NOTE 13. RELATED PARTY TRANSACTIONS

Section 37-5-305, *Tennessee Code Annotated*, defines the membership of the Community Services Agency’s (CSA) Board of Directors. Included on each rural CSA’s board is the Commissioner of the Department of Children’s Services (DCS) or the commissioner’s designee. The commissioner has designated the DCS Regional

Southwest Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2003, and June 30, 2002

Administrator, a management-level DCS employee assigned to the CSA service area. As a board member, the Regional Administrator can vote on all CSA business including: the adoption of written policies, procedures or rules and regulations to govern the CSA's internal operations; the making and executing of contracts; or the receiving, administering, allocating, and disbursing of funds made available under any federal or state assistance program. As a DCS employee, the Regional Administrator can authorize transactions that will be paid by the CSA. DCS is the primary funding source of the Southwest Community Services Agency, providing over \$3.1 million in revenue.

In addition, the DCS Commissioner appoints the agency's Executive Director with the approval of the CSA's board of directors. The DCS Commissioner also approves any CSA policies, procedures, or rules and regulations proposed by the board of directors, as well as all contracts for the purchase of services or the acquisition or improvement of real property. Furthermore, the Commissioner is responsible for the review and approval of the CSA's plan of operation submitted in accordance with Section 37-5-310, *Tennessee Code Annotated*.

**Southwest Community Services Agency
Required Supplementary Information
Schedule of Pension Funding Progress**

(Expressed in Thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Funding Excess) AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded (Funding Excess) AAL as a Percentage of Covered Payroll [(b-a)/c]
July 1, 2001	\$2,750	\$2,765	\$15	99.46%	\$3,316	0.48%
July 1, 1999	\$1,944	\$2,051	\$107	94.78%	\$2,735	3.91%
June 30, 1997	\$1,267	\$1,267	-	100.00%	\$2,654	-

Changes in Actuarial Assumptions

An actuarial valuation was performed as of July 1, 2001, to establish contribution rates as of July 1, 2002. The July 1, 1999, actuarial valuation established contribution rates for the year ended June 30, 2002. Significant actuarial assumptions used in both valuations included a rate of return on investment of present and future assets of 7.5% a year compounded annually and a projected annual increase in post-retirement benefits of 3% of the retiree's most recent benefit. Projected salary increases used in the 2001 valuation were 4.75% a year compounded annually, down from 5.5% a year in the 1999 valuation (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries). The 2001 valuation projected a 3.5% annual increase in the social security wage base, down from 4.5% in the 1999 valuation.

Supplementary Information
Southwest Community Services Agency
Budgetary Comparison Schedules
General Fund
For the Years Ended June 30, 2003, and June 30, 2002

	For the Year Ended June 30, 2003				For the Year Ended June 30, 2002			
	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final			Original	Final		
Sources of Financial Resources:								
Fund Balance, July 1								
Amount approved for expenditure	\$ 250,000.00	\$ 250,000.00	\$ 250,000.00		\$ 250,000.00	\$ 250,000.00	\$ 250,000.00	
Amount not approved for expenditure	337,215.76	337,215.76	337,215.76		453,038.41	453,038.41	453,038.41	
Revenues								
Department of Children's Services	3,574,975.00	4,130,691.00	3,073,356.79	\$ (1,057,334.21)	4,075,760.00	4,140,889.00	3,589,971.79	\$ (550,917.21)
Department of Correction	2,672,289.00	2,586,216.00	2,575,419.71	(10,796.29)	2,551,741.00	2,551,741.00	2,206,659.86	(345,081.14)
TennCare Managed Care Organizations/ Behavioral Health Organizations	277,036.00	272,036.00	177,286.44	(94,749.56)	262,036.00	262,036.00	217,476.21	(44,559.79)
Interest revenue	-	-	7,251.11	7,251.11	-	-	13,780.97	13,780.97
Total revenues	<u>6,524,300.00</u>	<u>6,988,943.00</u>	<u>5,833,314.05</u>	<u>(1,155,628.95)</u>	<u>6,889,537.00</u>	<u>6,954,666.00</u>	<u>6,027,888.83</u>	<u>(926,777.17)</u>
Total sources of financial resources	<u>7,111,515.76</u>	<u>7,576,158.76</u>	<u>6,420,529.81</u>	<u>(1,155,628.95)</u>	<u>7,592,575.41</u>	<u>7,657,704.41</u>	<u>6,730,927.24</u>	<u>(926,777.17)</u>
Expenditures								
Administration	408,347.00	690,498.00	413,215.20	(277,282.80)	419,304.00	419,304.00	414,349.95	(4,954.05)
Child and Family Case Management	1,689,940.00	1,729,032.00	1,705,134.81	(23,897.19)	2,383,389.00	2,383,389.00	1,916,352.70	(467,036.30)
Child and Family Services	1,720,459.00	1,944,459.00	1,146,315.16	(798,143.84)	1,493,952.00	1,559,081.00	1,296,875.67	(262,205.33)
Prison Health Services	2,503,518.00	2,422,918.00	2,410,214.14	(12,703.86)	2,390,856.00	2,390,856.00	2,206,659.86	(184,196.14)
TennCare Transportation	252,036.00	252,036.00	162,494.39	(89,541.61)	252,036.00	252,036.00	175,256.95	(76,779.05)
Community Services	200,000.00	200,000.00	64,329.09	(135,670.91)	200,000.00	200,000.00	134,216.35	(65,783.65)
Total expenditures	<u>6,774,300.00</u>	<u>7,238,943.00</u>	<u>5,901,702.79</u>	<u>(1,337,240.21)</u>	<u>7,139,537.00</u>	<u>7,204,666.00</u>	<u>6,143,711.48</u>	<u>(1,060,954.52)</u>
Fund Balance, June 30	<u>\$ 337,215.76</u>	<u>\$ 337,215.76</u>	<u>\$ 518,827.02</u>	<u>\$ 181,611.26</u>	<u>\$ 453,038.41</u>	<u>\$ 453,038.41</u>	<u>\$ 587,215.76</u>	<u>\$ 134,177.35</u>

NOTE: The budgeted and actual expenditures reported as Children and Family Services, Family Support Services, Flexible Funding, and Emergency Residential for the year ended June 30, 2002, were reclassified and reported as Child and Family Case Management and Child and Family Services.

APPENDIX

SOUTHWEST COMMUNITY SERVICES AGENCY

Don Patterson, Executive Director

BOARD OF DIRECTORS

Board Officers

Bob Gray, Chair
Robin Powers, Vice-Chair
Spurgeon Smith, Secretary/Treasurer

Executive Committee Members

Bob Gray, Chair
Robin Powers, Vice-Chair
Spurgeon Smith, Secretary/Treasurer

Other Members of the Board of Directors

Terry Bell
Charlotte Gammill
Vanissa Holmberg
Deborah Jenkins
Mildred Lawhorn
John Meeks
Bill Rawls, Jr.
Vijayashree Reddy
Ina Yarbrough